



**DEPARTMENT OF HEALTH & HUMAN SERVICES**  
**Health Care Financing Administration**

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**Center for Medicaid and State Operations**  
**Family and Children's Health Programs Group**  
**Division of Integrated Health Systems**  
**7500 Security Boulevard**  
**Baltimore, MD 21244-1850**

Gail L. Margolis, Deputy Director  
Medical Care Services  
Department of Health Services  
714 P Street, Room 1253  
Sacramento, CA 95814

Dear Ms. Margolis:

I am pleased to inform you that the Centers for Medicare & Medicaid Services (CMS) (formerly the Health Care Financing Administration (HCFA)) is approving California's request for a two-year continuation of its Two-Plan Model waiver program authorized under sections 1915(b)(1), (b)(2) and (b)(4) of the Social Security Act (the Act). It allows California to provide the full scope of Medi-Cal benefits to all qualifying Medi-Cal beneficiaries residing in several California counties through contracts under the Two-Plan Model program.

This approval provides for a waiver of the following sections of the Act: 1902(a)(1) - Statewide; 1902(a)(10)(B) - Comparability of Services, and 1902(a)(23) - Freedom of Choice.

I have based my decision on the evidence submitted showing that the program is consistent with the purposes of the Medicaid program, has met statutory and regulatory requirements for access to care and quality of services, and will continue to be a cost-effective means of providing health care services to a substantial portion of California's Medicaid population.

California has met CMS' requirement for independent assessments of this waiver program's cost-effectiveness, access to care, and quality of services. Therefore, unless significant problems are identified in the future, CMS is no longer requiring the State to conduct further independent assessments. However, the State will continue to be responsible for documenting and ensuring that the waiver meets the cost-effectiveness, access and quality standards in subsequent renewal requests.

In addition, this approval is contingent on the following conditions:

1. Consistent with the requirements of Section 1902(a)(30)(C) of the Act, the State must ensure that an independent external review of the quality of services delivered by each managed care organization is completed on an annual basis and submitted to CMS.
2. The State is to submit to CMS a schedule of Two-Plan Model program's future medical and financial audits including the assurance that gaps in reporting will not occur. Please submit the schedule of audits within 6 months from the date of this approval letter.
3. The State will continue to provide CMS with monitoring reports on the Two-Plan Model program. CMS will work with the State to develop a reporting regimen that provides the scope and range of information that will prove useful to both CMS in its ongoing monitoring and oversight of the Two-Plan Model program and to the State in its day-to-day management of the program. The reporting regimen will be based on a combination of the requirements agreed upon by CMS and the State in the previous renewal and the results of the State's contract monitoring activities. The State and CMS will arrange a monitoring meeting within 6 months from the date of this approval letter.
4. Funding sources associated with this waiver will not duplicate payments included under other existing Section 1915(b) waiver authorities or with the Section 1115 Research and Demonstration waivers currently operating in Los Angeles County.
5. The State must continue to ensure that selective provider contracting program savings are excluded from the upper payment limit calculations.
6. The State will continue to require periodic reports from the Two-Plan Model program that comprehensively identify the number of children enrolled in Medicaid managed care who are in each of the five specified groups of children with special needs, as defined by the Balanced Budget Act (BBA). The State will identify, or require the Two-Plan Model program to identify, children in BBA categories 1, 2, 3, and 4 through Medi-Cal program aid code analyses and, if necessary, identify category 5 through manual review. The State will submit these data to CMS on an annual basis.
7. The State will continue to require the Two-Plan Model program to categorically code and report the number of children that the plan identifies through program linkages and community liaison activities with other entities if the children are identified to be in any one of the five BBA categories and were not previously identified as such.
8. With respect to quality of care, the State will continue to conduct, or require the Two-Plan Model program to conduct, a study that will stratify its analyses such that outcomes for children in the Two-Plan categories are discussed and assessed. Or, the State may perform, or require the Two-Plan Model program to perform, a quality study that focuses solely on special needs children as defined by the BBA.

9. The State will continue to require the Two-Plan Model program to manually review member grievances involving children identified by the BBA as having special health care needs. The State will require the plans to report this data to the State on a periodic basis and the State will submit them to CMS on a basis no less than annually.
10. The State, on a basis no less than annually, will provide CMS with data on the number of children who voluntarily change primary care providers within the plans.
11. The State will require that MCOs serving children identified in categories 1-5 of the BBA definition of CSHCN to perform assessments of these children's needs and the implementation of treatment plans, as appropriate, based upon these assessments.

The State of California has been approved for a competitive procurement exemption for the Local Initiative (LI) contracts under the Two-Plan Model waiver program through the duration of the renewal period. In order to continue to receive a competitive procurement exemption for the LI contracts, the State will be required to submit a request for exemption from the Federal procurement regulations at 45 CFR Part 74 and documentation supporting both the need for the exemption and evidence that access and quality are not impaired under this contracting arrangement as outlined in CMS' letter dated July 25, 2001. This information should be submitted with the State's next request for renewal of the Two-Plan Model waiver.

Approval of this waiver renewal covers the two-year period from November 9, 2001 through November 8, 2003. California may request that this authority be renewed and should submit its request for renewal 90 to 120 days in advance of the expiration date.

We appreciate the State's efforts in continuing this program, which provides for accessible, quality and cost-effective health care for Medicaid enrollees, and wish you much success in your continuing activities in this area. If you have any questions, please feel free to contact Linda Minamoto in the CMS San Francisco Regional Office, Division of Medicaid, at (415) 744-3568.

Sincerely,

Michael Fiore  
Director

cc: Linda Minamoto, CMS, Region IX  
Michele Walker, CMS, Region IX

*The Health Care Financing Administration (HCFA) was renamed to the **Centers for Medicare & Medicaid Services (CMS)**. We are exercising fiscal restraint by exhausting our stock of stationery.*